

Inflation: Too Much Money Chasing Too Few Goods

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ABSTRACT

Inflation is a major macroeconomic issue that affects the purchasing power of money and overall economic stability. It occurs when the general price level of goods and services rises continuously over time due to excessive money supply, rising production costs, and increasing demand. This article discusses the meaning, types, causes, and methods of measuring inflation in India using indicators such as the Consumer Price Index (CPI), Wholesale Price Index (WPI), and GDP Deflator. It also highlights the factors influencing inflation, measures adopted by the government and Reserve Bank of India to control inflation, and the positive and negative effects of inflation on different groups in society.

INTRODUCTION

Inflation is one of the most important macroeconomic issues faced by modern economies. It refers to a continuous rise in the general price level of goods and services over a period of time. When the general price level increases in an economy, the purchasing

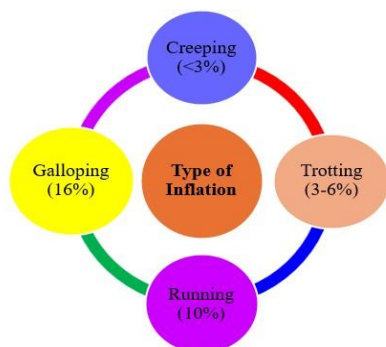
power of money will decline. It means a given amount of money can buy fewer goods and services than earlier. Inflation represents a situation in which the supply of money in an economy grows faster than the supply of goods and services. Inflation states that “too

much money chasing too few goods.” According to Geoffrey Crowther, “*Inflation is a persistent and appreciable rise in the general price level.*” Moderate inflation is considered normal in a growing economy; however, very high inflation can lead to serious economic instability, distort income distribution, and reduce the standard of living. Future inflation uncertainty leads to ambiguity about the future value of savings and investments, which may skew the effective use of resources (Chowdhury, 2014).

Types of Inflation: Inflation can be classified in several ways depending on the rate of price increase, causes, degree of control, and coverage of commodities.

A. Based on Rate of Price Increase

- i. **Creeping Inflation (Mild Inflation):** Creeping inflation refers to a situation where prices rise slowly and steadily at a rate of less than about 3 percent per year. It is generally considered harmless and may even stimulate economic growth by encouraging investment and production.
- ii. **Walking Inflation (Trotting Inflation):** Walking inflation occurs when prices rise at a moderate rate of around 3–6 percent annually. At this stage inflation begins to create concern for policymakers and serves as a warning signal for the government to take corrective measures.



- iii. **Running Inflation:** Running inflation occurs when the price level increases rapidly, usually at a rate of around 10

percent per year. This level of inflation creates serious economic problems such as rising cost of living and declining purchasing power of consumers.

- iv. **Hyperinflation (Galloping Inflation):** Hyperinflation is the most severe form of inflation in which prices rise extremely fast, often more than 16 percent per year or even much higher in extreme cases. In such situations the value of money falls drastically and the economy may face severe financial instability.

B. Based on Causes of inflation

- i. **Demand-Pull Inflation:** Demand-pull inflation occurs when aggregate demand in the economy exceeds aggregate supply. When consumers, businesses, and the government increase spending, the demand for goods and services rises faster than production, causing prices to increase. For example, increased consumer spending due to higher incomes or expansionary fiscal policy may create excess demand in the economy.
- ii. **Cost-Push Inflation:** Cost-push inflation arises when the cost of production increases, forcing producers to raise the prices of goods and services to maintain their profit margins. Such increases in production costs may occur due to:
 - ❖ Rising wages of labour
 - ❖ Increase in prices of raw materials
 - ❖ Higher energy costs
 - ❖ Increase in transportation costs
- iii. **Monetary Inflation:** Monetary inflation occurs due to an excessive increase in the money supply in an economy without a corresponding increase in production. When more money circulates in the economy, the value of money falls and prices rise.

C. Based on Government Control on Inflation

- i. **Open Inflation:** Open inflation occurs when prices are free to rise without any government intervention occurs. Prices are determined by the market forces i.e. demand and supply of commodities. This type of inflation usually exists in a free-market economy where price controls are minimal.
- ii. **Suppressed (Controlled) Inflation:** Suppressed inflation occurs when the government intervention occurs to control raising prices in the economy through policies such as price ceilings, rationing, subsidies, and distribution controls. Although prices may appear stable, shortages and black markets may develop.

D. Other Forms of Inflation

- i. **Comprehensive Inflation:** Comprehensive inflation occurs when prices of almost all goods and services rise simultaneously throughout the economy.
- ii. **Sporadic or Sectoral Inflation:** This type of inflation occurs when prices increase only in certain sectors or commodities, such as food grains or fuel, while other prices remain relatively stable.
- iii. **Mark-Up Inflation:** Mark-up inflation occurs when firms increase the selling price of goods by adding a higher mark-up over production costs in order to maintain or increase profit margins.
- iv. **Profit-Induced Inflation:** Profit-induced inflation occurs when firms deliberately raise prices primarily to increase their profits, even when production costs have not increased significantly.
- v. **Stagflation:** Stagflation refers to a situation where economy experiences slow or

stagnant economic growth along with rising inflation and unemployment.

- vi. **Deflation:** Deflation is the opposite of inflation. It refers to a persistent fall in the general price level, which increases the purchasing power of money but may reduce economic activity and employment.

Methods of Measuring Inflation: Inflation is measured through various price indices that track changes in the general price level over time.

A. Consumer Price Index (CPI): The Consumer Price Index measures change in the price level of a basket of goods and services commonly consumed by households. It reflects the **cost of living** for consumers. The CPI is compiled and published by the National Statistical Office (India). CPI is widely used in India:

- As an indicator of inflation
- For inflation targeting by the Reserve Bank of India
- For adjustment of dearness allowance for employees
- As a deflator in national income calculations

Month wise consumer price index of India is presented in table-1. It was observed from the table that monthly consumer price index of India was reported increasing trend throughout the year. The lowest and highest CPI point was recorded in the month of February, 2025 (101.32) and January, 2026 (104.46) respectively.

Table 1: Monthly Consumer Price Index (CPI) in India

Months	CPI (In points)
February, 2025	101.32
March, 2025	101.39
April, 2025	101.58
May, 2025	101.90

June, 2025	102.51
July, 2025	103.35
August, 2025	103.74
September, 2025	103.74
October, 2025	103.74
November, 2025	104.01
December, 2025	104.10
January, 2026	104.46

Source: - Ministry of Statistics and Programme Implementation, GoI

Table-2 presented the month wise changes in India's consumer price index components of 2026 with previous year. It could be observed from the table that January, 2026 reported broad based positive consumer price index except food inflation of previous year. Transportation, housing, education, clothing and footwear, etc. remained unchanged and keeping overall inflation from spiking.

Table 2: Comparative performance of CPI Components in India (January 2026)

Components	Last	Previous	Unit
CPI Clothing and footwear	105.92	105.76	Points
CPI Education services	105.33	105.25	Points
Consumer food price index	104.04	104.09	Points
CPI Housing and utilities	102.02	101.89	Points
CPI Recreation, Sport, and Culture	104.03	103.71	Points
CPI Restaurant and Accommodation services	105.71	105.52	Points
CPI Transport	100.64	100.57	Points
Food Inflation	2.13	-2.71	Percent

Source: - Ministry of Statistics and Programme Implementation, GoI

Table-3 showed comparative information of four key inflation measures for India. Based on data, it can be concluded that month on month inflation rate rose by 0.36 point from previous month. The consumer price index of 2026 was 0.36 point higher than previous year. In case of GDP deflator is much higher than CPI because

base year is different. It is also greater than previous year.

Table 3: Major Inflation Indicators of India

Related	Last	Previous	Unit	Reference
Consumer Price Index CPI	104.46	104.10	points	Jan 2026
GDP Deflator	172.60	170.20	points	Dec 2024
Inflation Rate Year on Year	2.75	1.33	percent	Jan 2026
Inflation Rate Month on Month	0.35	0.08	percent	Jan 2026

B. Wholesale Price Index (WPI): The Wholesale Price Index measures change in prices at the wholesale or producer level. It tracks price movements of goods traded in bulk before reaching retail markets. In India, the WPI is published by the Office of the Economic Adviser under the Ministry of Commerce and Industry (India). One advantage of WPI is that it has a long historical series dating back to 1942, making it useful for analyzing long-term inflation trends. However, a limitation is that it does not include the services sector, which constitutes a significant share of the economy.

C. GNP Deflator: The GNP Deflator measures the change in the price level of all final goods and services produced by a country's residents. It is used to convert nominal GNP into real GNP.

$$\text{GNP Deflator} = \frac{\text{Nominal GNP}}{\text{Real GNP}} \times 100$$

Factors Influencing Inflation in India: Inflation in India is influenced by several demand-side and supply-side factors (Jayalaxmi *et al.*, 2023).

A. Demand Factors: Demand factors arise when aggregate demand exceeds aggregate supply. In India, agricultural shocks such as droughts or floods may reduce food supply, create excess demand and lead to price increases.

B. Supply-Side Factors: Supply shortages caused by low agricultural production, poor infrastructure, transportation bottlenecks, and rising input costs can lead to higher prices.

C. Domestic Factors: Domestic structural issues such as underdeveloped financial markets, fiscal deficits, and inefficient distribution systems also contribute to inflationary pressures.

D. External Factors: External factors include:

- Fluctuations in exchange rates
- Rising international commodity prices
- Changes in global supply chains

For example, increases in international crude oil prices raise production and transportation costs, which contribute to inflation in India.

Measures to Control Inflation: Governments and Central Banks of the country adopt various policies to control inflation.

A. Monetary Policy: Monetary policy implemented by the Reserve Bank of India plays a crucial role in controlling inflation. The central bank can reduce the money supply and limit excessive demand in the economy. The Central Bank may increase following policy rates to control inflation in the economy:

- Repo Rate
- Reverse Repo Rate
- Bank Rate
- Cash Reserve Ratio (CRR)
- Statutory Liquidity Ratio (SLR)

B. Fiscal Policy: These measures help in reducing aggregate demand. The central government can reduce inflationary pressure by:

- Increasing taxes
- Reducing public expenditure

C. Supply-Side Policies: Policies aimed at improving productivity, increasing production, and strengthening infrastructure can reduce long-term inflationary pressures.

D. Exchange Rate Policy: Maintaining a stable exchange rate can reduce imported inflation by lowering the cost of imported goods and raw materials.

E. Wage Control: Limiting excessive wage growth can help control inflation, especially when wage increases lead to higher production costs.

Effects of Inflation: Inflation affects different groups in the economy in different ways.

A. Positive Effects of Inflation: The following group of people may gain because of rising in prices. It can increase profits or reduce the real burden of debt.

- | | |
|-----------|-------------|
| ✓ Debtors | ✓ Producers |
| ✓ Tenants | ✓ Traders |

B. Negative Effects of Inflation: These groups of people may lose due to presence of inflation in the economy. Inflation will decline the purchasing power or savings of these peoples.

- | | |
|--------------|-----------------------|
| ✓ Creditors | ✓ Fixed income groups |
| ✓ Pensioners | ✓ Bondholders |
| ✓ Landlords | |

Higher inflation-bearing countries in the world: According to the International Monetary Fund (IMF) World Economic Outlook, several countries experienced extremely high inflation in 2025 due to

economic crises, currency depreciation, political instability, and supply shortages.

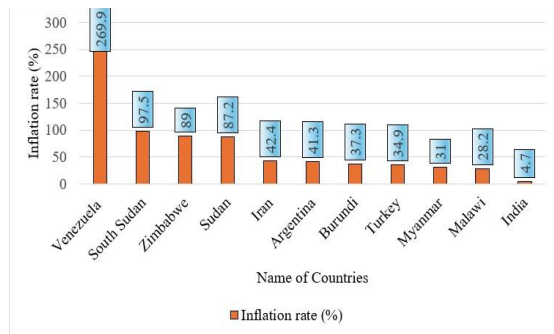


Figure: During 2025, Higher Inflation-affected Countries in the world

Venezuela recorded the highest inflation rate in the world at about 269.9%, mainly because of severe currency depreciation, economic mismanagement, and international sanctions. South Sudan, Zimbabwe, and Sudan also faced very high inflation due to civil conflict, weak economic systems, and heavy dependence on imports, which caused sharp increases in the prices of essential goods. (IMF, 2025). India recorded an inflation rate of about 4.7% in 2025, which is relatively moderate compared to many high-inflation countries. According to the Reserve Bank of India, inflation in India is mainly influenced by food prices, global crude

oil prices, and domestic demand conditions. Since food items have a large weight in the Consumer Price Index (CPI), fluctuations in agricultural production and supply significantly affect inflation levels. The RBI's monetary policy measures have also helped maintain inflation within the target range (RBI; 2025).

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